



State Capitol | Lansing, Michigan 48913
PH (517) 373.2523 | FAX (517) 373.5669
www.senate.michigan.gov/gop/senator/johnson/

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CONTACT: Brian O'Connell
(517) 373-2523

Governor's Budget Assumptions Tenuous, Senate Budget Chair Says **Sen. Johnson: "This budget is so fragile – it's like a house of cards."**

LANSING – Governor Jennifer M. Granholm's 2004 state budget is so full of one-time accounting fixes, revenue shifts, fee increases and overly generous economic assumptions that an unexpected change in Michigan's economy could cause it to collapse, Senate Appropriations Chairwoman Shirley Johnson said Wednesday.

"I've worked on twenty-one state budgets and, by far, this one has the most assumptions built into it that I've ever seen," Johnson said. "This budget is so fragile – it's like a house of cards. One wrong breath could bring it tumbling down."

Johnson, R-Royal Oak, made her assessment following an independent overview of the Granholm budget presented to the full Appropriations Committee by the non-partisan Senate Fiscal Agency. The Senate Fiscal Agency overview provided committee members their first in-depth look at the 2004 fiscal year state budget since the governor presented it last week.

Johnson said the overview identified several potential problems in the governor's budget that lawmakers must address as the House and Senate Appropriations Committees begin work on state spending bills. Those problems include:

- Less than \$210 billion in actual spending cuts, or 2.4 percent of current spending, much less than what Governor Granholm and her budget officials have indicated;
- \$340 million in "on-time fixes" which just push back Michigan's deficit problem that will punch holes in future budgets;
- A \$198.6 million on-time shift of revenue sharing money to the School Aid Fund. Both the state Auditor General and the Senate Fiscal Agency question whether Michigan law allows for such a move;
- Federal Medicaid waivers of nearly \$300 million. Governor Engler made this same waiver request but federal Medicaid administrators denied the request. This request is tenuous at best.

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- Proposals to take half of all unspent money state departments have left over at the end of a fiscal year and apply it to the next year's budget. Senate Fiscal Agency indicated such a move might violate state law in the Department of Management and Budget Act.
- Potential 8.3 percent cut to state employees' salaries and benefits. The governor's budget calls for no funding for to pay for a 3 percent negotiated pay increase for state employees, not paying a 1.6 percent increase in healthcare benefits, and an unfunded 3.7 percent cost of living increase to state employees' retirement accounts. If the governor is unable to secure concessions from employee unions, state departments will have to fund this increase by cutting other programs or eliminating jobs.

Johnson, a veteran of the state budget process, expressed concern that the governor's budget relied too much on overly optimistic economic forecasts, yet untried new revenue sources and on-time fixes to balance Michigan's book in 2004. She said the lagging local and national economies will take longer than expected to recover and lawmakers must consider many factors as they begin debate on the governor's budget recommendations.

"State officials no doubt were very creative when they put this budget together, but we have to consider all the factors, not just what is put here before us today," Johnson told members of her committee. "But we need to base our budget on sound accounting principles. I want to make sure we have the best information possible so we can balance the budget while meeting the critical needs of this state."

Johnson said she is concerned that while the governor's budget seems balanced "on paper," lawmakers will have to make serious changes and adjustments before any spending bill makes it way to Governor Granholm's desk for signature into law.

"We are a long way from balancing this budget," she said. "The governor gave us her recommendations and now we have to see how they match up to the realities."